

Office of Attorney General Terry Goddard



STATE OF ARIZONA
DEPARTMENT OF LAW
12 75 W. WASHINGTON STREET
PHOENIX, ARIZONA 85007-2926
WWW.AZAG.GOV

ANDREA M. ESQUER
PRESS SECRETARY
PHONE: (602) 542-8019
CELL PHONE: (602) 725-2200

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Attorney General's 2005 Gas Price Investigation Finds Dramatically Higher Profits but No Violations of State Law

(Phoenix, Ariz. - April 26, 2006) Attorney General Terry Goddard said today that an investigation by his office into last year's steep rise in gas prices following Hurricane Katrina found sharply higher profit margins but no violations of state law.

The investigation followed hundreds of complaints from Arizona consumers who asked the Attorney General's Office to take action after retail gas prices in Arizona rose from an average of \$2.39 a gallon on Aug. 1, 2005, to \$3.12 a gallon on Sept. 6, 2005.

Arizona gasoline wholesalers and distributors typically have gross margins of 8 to 12 cents a gallon. The investigation found that some increased their profit margins to 20 or 30 cents a gallon after the hurricane disrupted supplies. Refinery profit margins also jumped. Average gross margins for California refineries, which supply at least half of the gasoline sold in Arizona, climbed from 49 cents a gallon before the hurricane to \$1.15 after, an increase of 135 percent.

The report notes that such a rise in profits during or after a supply disruption is not illegal in Arizona. Without a state law against price-gouging, the Arizona General's Office can only take action if fraud or collusion were found related to the price hikes. No such violations were found.

"The fact that some companies were legally able to triple their profits and exploit a national disaster at a time when consumers were forced to pay dramatically higher prices shows the clear need for an anti-price-gouging law," Goddard said. Twenty-eight states currently have such laws. Goddard has sought a gouging law for the past three years, but the State Legislature has failed to adopt one. He also testified before Congress last November in support of a federal law that would make price-gouging illegal. That law, too, has not been enacted.

The investigation also identified several factors besides profiteering that figured into higher gas prices. They include a "just-in-time" inventory system that minimizes storage costs but has cut gasoline reserves in half, making price hikes more likely whenever a supply problem occurs; a gasoline delivery infrastructure in the western United States that is antiquated and inadequate; and a large increase in consumer demand in the days immediately following the hurricane.

The office's nine-page "2005 Gasoline Report" can be found at www.azag.gov by clicking on "Publications" on the home page. Consumers can file complaints about gas prices at www.azag.gov by clicking on "Gasoline" and "Online complaint form."

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